

Message Text

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S/S - MR. LUERS

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FM SECSTATE WASHDC

TO AMEMBASSY KINGSTON IMMEDIATE

C O N F I D E N T I A L STATE 108377

EXDIS

E.O. 11652:

TAGS: EMIN, EFIN

SUBJECT:BAUXITE NEGOTIATIONS

REFS: (A) MANLEY SPEECH TO PARLIAMENT

(B) KINGSTON 1786

1. DEPT WOULD APPRECIATE YOUR COMMENTS ON SEVERAL QUESTIONS ARISING OUT OF MANLEY'S SPEECH TO PARLIAMENT (REF A) AND TEXT OF LEGISLATION (REF B). DEPT MAY SEND FURTHER COMMENTS ON LEGISLATION BY SEPTTEL.

2. SPEECH REFERS ONLY TO PRODUCTION LEVY AND ROYALTY, AND LEGISLATION DEALS ONLY WITH PRODUCTION LEVY. DOES THIS MEAN THAT INCOME TAX ARRANGEMENTS WILL REMAIN UNCHANGED? IF SO, WILL JAMAICAN INCOME TAX PAYMENTS BE CREDITABLE AGAINST PRODUCTION LEVY, SO THAT TOTAL INCOME TAX AND PRODUCTION LEVYLIABILITIES WILL NOT EXCEED

7.5 PERCENT OF AVERAGE REALIZED INGOT PRICE? WOULD CREDITING PROVISION REQUIRE NEW LEGISLATION OR ADMINISTRATIVE ACTION? WILL ROYALTY HIKE BE THE SUBJECT OF
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SEPARATE LEGISLATION OR ADMINISTRATIVE ACTION?

3. SPEECH CITES 7.5 PERCENT, 8.0 PERCENT, AND 8.5 PERCENT TAX RATES FOR FY 1975, FY 1976, AND FY 1977, RESPECTIVELY. LEGISLATION, HOWEVER, SPECIFIES ONLY 7.5 PERCENT RATE FOR INDEFINITE PERIOD AND GIVES MINISTER AUTHORITY TO AMEND RATES (AND MINIMUM TONNAGES) FROM TIME TO TIME,

SUBJECT TO HOUSE OF REP. AFFIRMATION. DO YOU THINK MANLEY OMITTED SPECIFICATION OF FUTURE RATES IN ORDER TO LEAVE HIMSELF MORE FLEXIBILITY NEXT YEAR TO ADJUST RATES UPWARD OR DOWNWARD?

4. IN VIEW OF FACT THAT COMPANIES HAVE SAID THAT THEY PLAN TO MINE 15.4 MILLION TONS OF BAUXITE IN 1974, IT IS CURIOUS THAT LEGISLATION SPECIFIES ONLY 14 MILLION TONS AS MINIMUM TONNAGE FOR PRODUCTION LEVY PURPOSES. DO YOU HAVE ANY INFORMATION ON WHY MANLEY CHOSE 14 MILLION TON FIGURE?

5. SPEECH SAYS THAT JAMAICA EXPECTS TO EARN U.S. 189 MILLION FROM PRODUCTION LEVY DURING 15 MONTH PERIOD JAN 1, 1974 THROUGH MARCH 31, 1974. THIS FIGURE IS CONSISTENT WITH ASSUMPTIONS THAT (A) THE ANNUAL MINING RATE IS THE MINIMUM 14 MILLION TONS, (B) 4.3 LONG TONS OF BAUXITE MAKE ONE SHORT TON OF PRIMARY ALUMINUM, AND (C) AVERAGE REALIZED PRICE OF PRIMARY ALUMINUM INGOT IS 31 CENTS PER POUND. AT PROBABLY MORE REALISTIC NUMBERS-- 15.4 MILLION TONS ANNUAL MINING RATE AND AVERAGE REALIZED INGOT PRICE OF 34 CENTS PER POUND (COMPANIES ARE RUMORED TO GO TO 35 CENTS IN AUGUST)--PRODUCTION LEVY WOULD YIELD U.S. 228 MILLION DOLS FOR 15 MONTH PERIOD, OR U.S. 182 MILLION DOLS FOR 12 MONTH PERIOD. ADDING THIS TO U.S. 10.6 MILLION DOLS IN ROYALTIES FOR INITIAL 15 MONTH PERIOD UNDER OUR TONNAGE ASSUMPTIONS, YIELDS TOTAL GOJ REVENUES OF U.S. 239 MILLION DOLS FOR INITIAL 15 MONTH PERIOD, OR U.S. 191 MILLION DOLS AT AN ANNUAL RATE. IF JAMAICAN INCOME TAXES ARE NOT FULLY CREDITABLE AGAINST PRODUCTION LEVY LIABILITIES, JAMAICAN REVENUES WOULD GO EVEN HIGHER.

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6. EMBASSY IS REQUESTED TO TRANSMIT ENOUGH OF INVESTMENT DISPUTES REWARDS (ENFORCEMENT) ACT, 1966, IN ORDER TO ENABLE DEPT TO ANALYZE CHANGES IN THIRD SCHEDULE OF LEGISLATION.

7. EMBASSY SHOULD NOT APPROACH GOJ ON ABOVE. RUSH

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